

REPORT TO
THE CONGRESS OF THE UNITED STATES



REVIEW OF
FINANCIAL CONDITION AND OPERATIONS
FISCAL YEARS 1963 AND 1962

UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

MARCH 1965

746086/087876



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-125014

MAR 24 1965

To the President of the Senate and the
Speaker of the House of Representatives

We have made a review of the financial condition and operations of the United States Section, International Boundary and Water Commission, United States and Mexico, for the fiscal years ended June 30, 1963 and 1962. We are issuing this report to advise the Congress of the corrective action taken by the United States Section on the recommendation contained in our prior report regarding the need for a firm allocation of construction costs of the Falcón Dam to power and to advise the Congress of the financial position of the United States Section.

In our opinion, except for (1) the omission of interest on the Government's investment in the power facilities at Falcón Dam, the liability for employees' accrued annual leave, and certain accounts payable and (2) the overstatement of depreciation charged to the cost of power operations at Falcón Dam, the accompanying financial statements present fairly the financial position of the United States Section at June 30, 1963 and 1962, and the results of operations for the years then ended in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States applied on a basis consistent with that of preceding years.

Officials of the United States Section have taken corrective action to record the interest on the Government's investment in the power facilities at Falcón Dam and the liability for employees' accrued annual leave, but the cash value of accrued annual leave is not being recorded as an operating expense. We were advised by these officials that consideration would be given to revising the basis for charging depreciation on facilities at Falcón Dam and that steps would be taken to properly record accounts payable at the close of the fiscal year.

We have included in this report a section concerning the status of repayment of the Government's investment in the power facilities at the Falcón Dam. The Bureau of Reclamation, Department of the Interior,

B-125014

prepared a repayment analysis dated October 30, 1963, which indicates that a 59-year period, rather than the 50-year period previously anticipated, will be required in order to recover the Government's investment in the power facilities at the Falcon Dam.

Copies of this report are being sent to the President of the United States; the Secretary of State; the Secretary of the Interior; and the Commissioner, United States Section, International Boundary and Water Commission, United States and Mexico.

A handwritten signature in dark ink, appearing to read "Joseph Campbell", is positioned above the title. The signature is fluid and cursive.

Comptroller General
of the United States

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REPORT ON REVIEW
OF
FINANCIAL CONDITION AND OPERATIONS
FISCAL YEARS 1963 AND 1962
UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

INTRODUCTION

The General Accounting Office has made a review of the financial condition and operations of the United States Section, INTERNATIONAL BOUNDARY AND WATER COMMISSION, UNITED STATES AND MEXICO, for the fiscal years ended June 30, 1963 and 1962. Our examination was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of our review is described on page 8.

The treaty of March 1, 1889 (26 Stat. 1512), establishing the International Boundary and Water Commission, United States and Mexico, authorizes the Commission to examine and decide questions arising in connection with the fluvial boundary between the two countries as the result of changes in the beds of the boundary streams, water resource projects constructed and operated on these streams, or any other cause affecting the boundary. The Commission's jurisdiction was extended to the overland boundary from El Paso, Texas, to the Pacific Ocean by the Water Treaty of February 3, 1944 (59 Stat. 1219). The Commissioner, United States Section, is appointed by the President and is responsible to the Secretary of State in matters of foreign policy.

All costs of construction, operation, and maintenance of the Section's projects and activities are nonreimbursable except for

the cost of producing electric energy. At the present time, the only completed project having power-producing facilities is the Falcon Dam.

The Secretary of the Interior is authorized to transmit and market the power generated at Falcón Dam.

At June 30, 1963, the United States Section had a headquarters office in El Paso, Texas, and seven field offices and nine subfield offices located along the border between the United States and Mexico.

The principal officials responsible for the administration of activities discussed in this report are listed in the appendix.

STATUS OF RECOMMENDATION IN PRIOR REPORT

In our report to the Congress dated June 30, 1961, on the "Review of Power Activities, United States Section, International Boundary and Water Commission, United States and Mexico, Department of State, Fiscal Years 1958-1960" (B-125014), we commented on the need for a firm allocation of construction costs of the Falcón Dam to power and we recommended that action be taken by the United States Section and the Bureau of Reclamation to finally resolve the amounts that should be allocated to power and that the proposed allocation be submitted for approval by the Secretary of the Interior.

A proposal to allocate costs to power under the incremental cost method was prepared by the Bureau of Reclamation and was forwarded on November 28, 1961, by the Secretary of the Interior to the Secretary of State for his concurrence. In a letter dated December 14, 1961, the Secretary of State notified the Secretary of the Interior that the Department of State and the Commissioner of the United States Section concurred in the proposed allocation. Our review indicated that the costs allocated to power under this method appear to be reasonable.

COMMENTS ON ACCOUNTING PRACTICES

We noted certain deficiencies in the accounting practices of the United States Section. These matters and the corrective actions taken are discussed below.

INTEREST ON GOVERNMENT'S INVESTMENT IN POWER FACILITIES AT FALCÓN DAM NOT RECORDED

Interest on that part of the Government's investment allocated to the power-producing facilities at Falcón Dam was not recorded as an expense in the accounts of the Section. The interest for fiscal year 1963 was about \$177,000 and the accumulated interest at June 30, 1963, was about \$1,602,000.

Action was taken in fiscal year 1964 to record the interest as an annual operating expense and to record the accumulated interest in the appropriate accounts.

LIABILITY FOR ACCRUED ANNUAL LEAVE NOT RECORDED

About \$320,000, representing employees' accrued annual leave at June 30, 1963, was not recorded as a liability or as an expense. The major portion of the liability applied to nonreimbursable operations of fiscal years prior to 1963.

Action was taken in fiscal year 1964 to record the cash value of employees' accrued annual leave as a liability with an offsetting entry as a deferred charge. To record this item as a deferred charge or asset, however, is improper because the item is chargeable to prior years' operations.

PROVISION FOR DEPRECIATION OVERSTATED

The amount of depreciation charged to the cost of power operations at Falcón Dam was overstated at June 30, 1963, by about \$3,500 because (1) the basis upon which the depreciation on Falcón Village had been allocated was not consistent with the basis upon

which the construction costs had been allocated and (2) the depreciation on the intake works and penstocks had not been recorded as an expense of power operations.

The Commissioner advised us that a study would be made to consider revising the basis for charging depreciation on Falcón Village to the cost of power operations and that depreciation on the intake works and penstocks would be charged to power operations in future fiscal years.

CERTAIN ACCOUNTS PAYABLE NOT RECORDED

Certain accounts payable, totaling approximately \$84,900 and \$54,800, were not recorded by the Section at June 30, 1962 and 1963, respectively. These amounts represent goods and services received by the Section for which no bills had been received by the end of the respective fiscal years.

The Commissioner advised us that in the future a more careful review would be made of the unliquidated obligations at the close of the fiscal year in order to ascertain whether all accounts payable are properly recorded and that more time would be allowed to make year-end adjustments to the accounting records.

REPAYMENT OF GOVERNMENT'S INVESTMENT
IN POWER FACILITIES AT FALCÓN DAM

The act of June 18, 1954 (68 Stat. 255), authorized the Secretary of the Interior to (1) transmit and dispose of power and energy generated at Falcón Dam, (2) establish rates which over a reasonable period of years, will recover the costs of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power, and (3) deposit all receipts from the sale of electric power and energy into the Treasury of the United States to the credit of miscellaneous receipts.

In July 1954, the Secretary of the Interior authorized the Bureau of Reclamation to market the power generated at Falcón Dam. The generation of electric power at the dam commenced in October 1954. Construction costs, including interest during construction, allocated to power totaled \$7,040,230 at June 30, 1963.

The Bureau of Reclamation's most recent repayment analysis dated October 30, 1963, shows that a 59-year period (1955 to 2013) will be necessary in order to derive the net revenues of about \$14.5 million that will be required to recover the \$7 million in construction costs and \$7.5 million in interest on the Federal investment. Previously the Bureau had estimated that a 50-year period would be necessary in order to recover the Government's investment in the power facilities of the Falcón Dam.

The following summary, which was prepared primarily from data included in the Bureau's latest repayment analysis, shows that the estimated total costs to be recovered from reimbursable power operations as of June 30, 1963, amounted to \$7,282,810.

	Cumulative to <u>June 30, 1963</u>
Gross power revenues	<u>\$2,684,283</u>
Less:	
Operation and maintenance expenses	1,114,625
Interest at 2.5 percent on unrepaid investment	1,601,800
Provision for replacement	127,200
Other expenses	<u>83,238</u>
Total	<u>2,926,863</u>
Repayment deficiency (before amortization of investment)	<u>242,580</u>
Construction costs allocated to power facilities at Falcón Dam as of June 30, 1963	<u>7,040,230</u>
Estimated total costs to be recovered from reimbursable power operations as of June 30, 1963	<u>\$7,282,810</u>

Note: Although the above summary shows a repayment deficiency as of June 30, 1963, the Bureau of Reclamation's repayment analysis, dated October 30, 1963, shows that an anticipated increase in future revenues should enable full repayment of construction costs and interest within a 59-year period.

SCOPE OF REVIEW

We examined the accounts and reports of the United States Section, International Boundary and Water Commission, United States and Mexico, for the fiscal years ended June 30, 1963 and 1962. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

OPINION OF FINANCIAL STATEMENTS

The United States Section, International Boundary and Water Commission, United States and Mexico, does not prepare formal financial statements. The financial statements included in this report (schedules 1, 2, and 3) were prepared by us from the accounting records of the Section, and, with the exception of certain consolidations, the amounts included in the statements are the same as those recorded by the Section. As explained on pages 4 and 5, the accounting records did not include and consequently the statements do not disclose (1) the interest on the Government's investment in the power facilities at Falcon Dam, (2) the liability for employees' accrued annual leave, (3) the correct amount of depreciation properly chargeable to the cost of power operations at Falcon Dam, and (4) certain accounts payable.

In our opinion, subject to the above comments, the accompanying financial statements present fairly the financial position of the United States Section of the International Boundary and Water Commission, United States and Mexico, at June 30, 1963 and 1962, and the results of operations for the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States applied on a basis consistent with that of preceding years.

FINANCIAL STATEMENTS

UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 1963 AND 1962

A S S E T S

	<u>June 30</u>	
	<u>1963</u>	<u>1962</u>
PLANT, PROPERTY, AND EQUIPMENT:		
Plant in service:		
Multipurpose (includes interest of \$2,442,502)	\$ 37,233,320	\$37,108,926
Flood control	19,324,811	19,254,416
Rectification and canalization improvements	11,205,629	10,644,995
Other plant improvements	<u>2,816,601</u>	<u>2,800,637</u>
	70,580,361	69,808,974
Less accumulated depreciation	<u>6,588,774</u>	<u>5,619,143</u>
	63,991,587	64,189,831
Construction work in progress	<u>18,910,548</u>	<u>8,291,872</u>
Total plant, property, and equipment, net	<u>82,902,135</u>	<u>72,481,703</u>
CURRENT ASSETS:		
Unexpended funds in accounts with U.S. Treasury	14,758,198	15,282,427
Accounts receivable	7,233	304
Accrued power revenues	22,039	139,975
Material and supplies	227,255	220,259
Prepayments and advances	<u>79,909</u>	<u>196,147</u>
Total current assets	<u>15,094,634</u>	<u>15,839,112</u>
DEFERRED CHARGES:		
Preliminary survey and investigation costs (note 1)	2,881,962	2,761,377
Other deferred charges	<u>608</u>	<u>471</u>
Total deferred charges	<u>2,882,570</u>	<u>2,761,848</u>
Total assets	<u>\$100,879,339</u>	<u>\$91,082,663</u>

The notes on page 14 are an integral part of this statement.

The opinion of the General Accounting Office on this statement appears on page 8.

L I A B I L I T I E S

	June 30	
	<u>1963</u>	<u>1962</u>
INVESTMENT OF U.S. GOVERNMENT:		
Congressional appropriations, net	\$141,126,138	\$127,500,737
Interest charged to construction--Falcón Dam	<u>2,442,502</u>	<u>2,442,502</u>
	<u>143,568,640</u>	<u>129,943,239</u>
Less:		
Payments to U.S. Treasury	3,031,066	2,617,907
Transfers of property or cost, net	2,241,968	2,066,343
Total expenses of nonreimbursable operations (schedule 3)	<u>37,843,850</u>	<u>35,470,071</u>
	<u>43,116,884</u>	<u>40,154,321</u>
	100,451,756	89,788,918
Accumulated net loss from power operations (schedule 2)	<u>-8,138</u>	<u>-5,613</u>
Net investment of U.S. Government	<u>100,443,618</u>	<u>89,783,305</u>
CURRENT AND ACCRUED LIABILITIES:		
Accounts payable	93,015	645,443
Liability for deposit and imprest funds	<u>111,855</u>	<u>419,826</u>
Total current and accrued liabilities	<u>204,870</u>	<u>1,065,269</u>
DEFERRED CREDITS	<u>4,688</u>	<u>9,495</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>226,163</u>	<u>224,594</u>
Total liabilities and investment of U.S. Government	<u>\$100,879,339</u>	<u>\$ 91,082,663</u>

UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

STATEMENT OF RESULTS FROM POWER OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1963 AND 1962

	<u>Fiscal years</u>	
	<u>1963</u>	<u>1962</u>
OPERATING REVENUE:		
Sales of electric energy to Central Power and Light Company	<u>\$316,425</u>	<u>\$395,068</u>
OPERATING EXPENSES:		
Operation expenses:		
Supervision and engineering	\$ 9,421	\$ 9,275
Hydraulic	15,948	16,213
Electric	50,319	46,987
Miscellaneous	<u>79</u>	<u>77</u>
	75,767	72,552
Maintenance expenses:		
Supervision and engineering	9,325	9,044
Structures and improvements	4,446	4,429
Electric plant	35,476	33,568
Miscellaneous plant	<u>2,291</u>	<u>3,384</u>
	51,538	50,425
Operation and maintenance expenses of multiple-purpose facilities distrib- uted to power	40,316	38,261
Provision for depreciation:		
Power facilities	141,019	141,009
Joint multiple-purpose facilities distributed to power	<u>10,310</u>	<u>9,779</u>
	151,329	150,788
Total operating expenses	<u>318,950</u>	<u>312,026</u>
NET PROFIT (—LOSS) FROM POWER OPERATIONS	—2,525	83,042
NET LOSS FROM PRIOR YEARS' POWER OPERATIONS	<u>—5,613</u>	<u>—88,655</u>
ACCUMULATED NET LOSS FROM POWER OPERATIONS	<u>\$ —8,138</u>	<u>\$ —5,613</u>

The notes on page 14 are an integral part of this statement.

The opinion of the General Accounting Office on this statement appears on page 8.

UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

STATEMENT OF EXPENSES OF NONREIMBURSABLE OPERATIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1963 AND 1962

	<u>Fiscal years</u>	
	<u>1963</u>	<u>1962</u>
OPERATING EXPENSES:		
El Paso projects--canalization and rectification	\$ 658,906	\$ 693,845
Lower Rio Grande--flood control and bank protection	557,800	690,260
International water control and hydro-graphic studies	345,219	338,236
Falcón Dam--multiple-purpose plant	120,507	114,652
Other plant and improvements	-	5,961
Total	1,682,432	1,842,954
General office engineering expenses	137,459	128,246
General administrative expenses	383,527	345,375
Depreciation on plant and facilities	820,066	756,095
Miscellaneous collections	-20,192	-16,691
Expenses of nonreimbursable operations for the fiscal year, net	<u>3,003,292</u>	<u>3,055,979</u>
PRIOR YEARS' EXPENSES, NET:		
Expenses at beginning of year	35,470,071	32,414,092
Adjustment applicable to prior year (note 2)	<u>-629,513</u>	<u>-</u>
Total prior years' expenses, net	<u>34,840,558</u>	<u>32,414,092</u>
TOTAL EXPENSES OF NONREIMBURSABLE OPERATIONS	<u>\$37,843,850</u>	<u>\$35,470,071</u>

The notes on page 14 are an integral part of this statement.

The opinion of the General Accounting Office on this statement appears on page 8.

NOTES TO FINANCIAL STATEMENTS

1. Preliminary survey and investigation costs are accumulated until a project is approved for construction or has been determined to be infeasible. The balance in the account at June 30, 1963 and 1962 was composed of the following project costs:

<u>Project</u>	<u>June 30</u>	
	<u>1963</u>	<u>1962</u>
Colorado River flood control	\$ 815,287	\$ 770,625
Tijuana River development	162,303	139,976
Santa Cruz River surveys	133,514	126,693
Rio Grande Dams--upper (note a)	1,624,438	1,624,438
Tijuana Sanitation project	33,069	29,152
Rio Grande Stream gaging weirs (note b)	22,946	22,946
Lower Rio Grande flood control (note b)	15,387	15,387
Colorado River salinity	26,242	16,087
Chamizal investigations	19,798	-
El Paso design flood criteria	10,083	-
All other	<u>18,895</u>	<u>16,073</u>
Total	<u>\$2,881,962</u>	<u>\$2,761,377</u>

^aTransferred to Construction Work in Progress on September 30, 1963.

^bTransferred to Construction Work in Progress on November 30, 1963.

2. The net adjustment to the prior year's expenses of nonreimbursable operations included the following amount for fiscal year 1963.

Transfer of cost to property accounts as a result of analysis and survey of revetment work	-\$638,095
Transfer of cost from preliminary survey and investigations accounts	<u>8,582</u>
Net adjustment	<u>-\$629,513</u>

APPENDIX

PRINCIPAL OFFICIALS
OF THE DEPARTMENT OF STATE
THE UNITED STATES SECTION OF THE INTERNATIONAL
BOUNDARY AND WATER COMMISSION, UNITED STATES
AND MEXICO, AND THE DEPARTMENT OF THE INTERIOR
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

		<u>Tenure of office</u>	
		<u>From</u>	<u>To</u>
<u>DEPARTMENT OF STATE</u>			
SECRETARY OF STATE:			
Christian A. Herter		Apr. 1959	Jan. 1961
Dean Rusk		Jan. 1961	Present
ASSISTANT SECRETARY FOR INTER-AMERICAN AFFAIRS:			
Roy R. Rubottom, Jr.		June 1957	Aug. 1960
Thomas C. Mann		Aug. 1960	Apr. 1961
Wymberley DeR. Coerr (acting)		Apr. 1961	July 1961
Robert Woodward		July 1961	Mar. 1962
Edwin M. Martin		Mar. 1962	Jan. 1964
Thomas C. Mann		Jan. 1964	Present
<u>INTERNATIONAL BOUNDARY AND WATER COMMISSION, UNITED STATES AND MEXICO</u>			
COMMISSIONER, UNITED STATES SECTION:			
Colonel L. H. Hewitt		June 1954	Mar. 1962
Joseph F. Friedkin		Apr. 1962	Present
<u>DEPARTMENT OF THE INTERIOR</u>			
SECRETARY OF THE INTERIOR:			
Fred A. Seaton		June 1956	Jan. 1961
Stewart L. Udall		Jan. 1961	Present

PRINCIPAL OFFICIALS
 OF THE DEPARTMENT OF STATE
 THE UNITED STATES SECTION OF THE INTERNATIONAL
 BOUNDARY AND WATER COMMISSION, UNITED STATES
 AND MEXICO, AND THE DEPARTMENT OF THE INTERIOR
 RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
 DISCUSSED IN THIS REPORT (continued)

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF THE INTERIOR</u> (continued)		
ASSISTANT SECRETARY FOR WATER AND POWER DEVELOPMENT:		
Fred G. Aandahl	Feb. 1953	Jan. 1961
Kenneth Holum	Jan. 1961	Present
COMMISSIONER, BUREAU OF RECLAMATION:		
Floyd E. Dominy	May 1959	Present